



# State of North Carolina

## Office of the State Controller

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**STATE CONTROLLER**

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### STATE CONTROLLER RELEASES 2009 COMPREHENSIVE ANNUAL FINANCIAL REPORT

**RALEIGH** – The Office of State Controller today released North Carolina’s Comprehensive Annual Financial Report (CAFR). The CAFR is prepared in accordance with generally accepted accounting principles.

The fund balance of the General Fund – the chief operating fund of the State -- declined substantially from \$1.678 billion at June 30, 2008 to negative \$775.864 million at June 30, 2009. The unreserved fund balance was a negative \$965.152 million. On a budgetary basis, the General Fund unreserved fund balance was \$92.237 million at June 30. For fiscal year 2009, the State appropriated most of the beginning unreserved fund balance, appropriated \$1.155 billion of federal recovery funds, reduced expenditures, and transferred amounts from other funds (and statutory reserves) to finance a General Fund revenue shortfall (excess of total expenditures over total revenues) of \$2.983 billion.

Despite the receipt of federal recovery funds, total revenues of the General Fund decreased for the first time in seven years. General Fund tax revenues decreased dramatically. A sharp rise in the State’s unemployment rate contributed to a 2% decline in withholding tax payments by employers and a 31.1% decline in final income tax payments by taxpayers. Refunds of individual income taxes increased 13.8%. Additionally, the tax rate on higher income taxpayers was reduced from 8% to 7.75% for tax year 2008. Corporate income taxes, which are highly volatile over the business cycle, decreased by 25.61%.

Even with a rise in the State sales and use tax from 4.25% to 4.5%, effective October 1, 2008, sales and use tax revenues decreased by 4.94%. The rise in the State unemployment rate contributed to a downturn in consumer spending. The housing sector was impacted most by the decline.

The net assets of the Unemployment Compensation Fund (Trust Fund) decreased from \$847.69 million at June 30, 2008 to negative \$298.761 million at June 30, 2009. This decrease is directly related to the decline in the State and national economies. Over the last 12 months, North Carolina employment is down by over 197,000 workers and unemployment has increased by over 224,000 people. During this same period, North Carolina’s seasonally adjusted unemployment rate rose from 6.1% in June 2008 to 11% in June 2009. The largest employment losses were realized in the following sectors: Manufacturing (-73,600 jobs), Construction (-43,300 jobs), Professional and Business Services (-41,100 jobs), and Trade, Transportation, and Utilities (-38,700 jobs).

The Trust Fund's operating margin (operating revenues less operating expenses) was negative \$2.177 billion this year compared to \$90.44 million in 2008. Unemployment benefit expenses increased 225% in fiscal year 2009 to \$3.253 billion. Because of depleted cash balances, the Trust Fund borrowed funds from the U.S. Treasury, beginning in February 2009, to ensure uninterrupted payment of unemployment benefits. At June 30, 2009, the short-term debt balance was \$728.773 million compared to zero at the previous fiscal year-end. It is anticipated that this borrowing will continue through the next fiscal year-end. The advances from the U.S. Treasury are currently interest free through December 31, 2010.

The Comprehensive Annual Financial Report, or CAFR, is prepared each year by the Office of the State Controller and audited by the Office of the State Auditor. The report, which outlines North Carolina's financial condition, has received a "clean" opinion from auditors, indicating that it fairly represents the financial position of the State.

The CAFR is used by bond agencies and other financial organizations to assess the State's fiscal health and economic outlook.

The full 2009 CAFR is available on the Office of the State Controller website at:

[http://www.osc.nc.gov/financial/09\\_cafr/index.html](http://www.osc.nc.gov/financial/09_cafr/index.html).

A summary level Financial Highlights report based on the 2009 CAFR is also available on the Office of the State Controller website at:

[http://www.osc.nc.gov/financial/popular09 .pdf](http://www.osc.nc.gov/financial/popular09.pdf).

***The State Controller is North Carolina's chief fiscal officer. The Office of the State Controller serves as an independent resource to ensure the financial integrity of the State by providing accounting, disbursing, payroll, internal control and financial reporting systems that serve state agencies, employees and the public and maximizing financial return through its statewide cash management plan. The OSC issues numerous financial reports including: Financial Highlights, General Fund Monthly Financial Report, IT Expenditures Report, Statewide Accounts Receivable Report, the State's Comprehensive Annual Financial Report (CAFR) as well as the short, easy-to-read version of the CAFR known as the "popular" report.***